MAINTAINING BUDGETARY DISCIPLINE: SPENDING AND REVENUE OPTIONS

APRIL 1999

The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Numbers in the text and tables may not add to totals because of rounding.

ERRATA

In the print version of this report, option 400-03 (Eliminate the Essential Air Service Program) states in the test that eliminating the program would save $4.8 billion from 2000 to 2009. That estimate is incorrect. The correct estimate is $480 million, as shown in the table accompanying the option. This electronic version contains the corrected text for the option.

Preface

This volume compiles 250 specific policy options for reducing federal spending or increasing revenues in a wide variety of programs. Prepared at the request of the House and Senate Budget Committees, it is intended to help policymakers maintain budgetary discipline and accomplish related policy goals. The report is similar to the compendiums of policy options for reducing the deficit that the Congressional Budget Office (CBO) prepared from 1980 to 1997.

The policy options included in this report come from many sources, and the Congress has considered most of them at some time in the past. In keeping with CBO's mandate to provide objective and impartial analysis, the discussion of each option presents the cases for and against it as fairly as possible. CBO does not endorse the options included, nor does exclusion of any proposal imply a recommendation for or against it.

The report begins with an introductory section that discusses the major rationales for budgetary discipline and explains how to use the information presented in this volume. Part One includes more than 200 options for reducing spending, organized by the functional categories of the budget—national defense; international affairs; general science, space, and technology; and so on. Each functional category is introduced by a page of background data and information on recent spending trends within that function. Part Two presents more than 50 options for generating revenues. The report concludes with an appendix listing the scorekeeping guidelines used to enforce the discretionary spending limits and pay-as-you-go requirement of the Budget Enforcement Act of 1990 (as amended).

All divisions of the Congressional Budget Office contributed to this report, which was coordinated by Sandy Davis, Steve Lieberman, and Barry Anderson. Sandy Davis also prepared the introductory section. The spending options were coordinated by David H. Moore, R. Mark Musell, R. William Thomas, and Bruce Vavrichek. The revenue options were coordinated by Diane Lim Rogers and Roberton Williams. Budget authority and outlay estimates were coordinated by Tom B. Bradley, Paul R. Cullinan, Peter H. Fontaine, and Michael A. Miller. The staff of the Joint Committee on Taxation prepared most of the revenue estimates. The background pages for each function were prepared by David H. Moore and Peter H. Fontaine, with assistance from Keith Mattrick. Laurie Brown designed the interactive version of the report, with technical support from Frank Gibbs. Barry Anderson designed the cover.

Sherry Snyder supervised the editing of the report, and Kathryn Quattrone oversaw production. Major portions were edited by Leah Mazade, Christian Spoor, and Liz Williams. The authors owe thanks to Sharon Corbin-Jallow, Judith A. Cromwell, Denise Jordan, Angela Z. McCollough, Ronald Moore, L. Rae Roy, and Simone Thomas, who typed the early drafts. Kathryn Quattrone prepared the report for publication, and Laurie Brown prepared the electronic versions for CBO's World Wide Web site, both assisted by Martina Wojak-Piotrow.

Dan L. Crippen
Director

April 1999

This study and other CBO publications
are available at CBO's Web site.
http://www.cbo.gov/

Contents

Curtail Income Tax Preferences for Businesses

Impose Taxes on Activities Harmful to the Environment

Introduction

Until recently, large and persistent deficits dominated the federal budget. For most of the past two decades, lawmakers struggled to find common ground on new policies that would eliminate those deficits. In the 1980s, their efforts met with little success; but in the 1990s, a strong economy and the end of the Cold War combined with a series of three multiyear budget agreements—in 1990, 1993, and 1997—to produce a dramatic reversal in the federal budgetary outlook.

The reversal happened with stunning speed, well in advance of predictions. Fiscal year 1998 ended with a sizable surplus of about $70 billion in the total budget (that is, including Social Security and the Postal Service, which are off-budget). The Congressional Budget Office (CBO) projects that under current policies and current assumptions about the economy, surpluses in the total budget will continue and will grow substantially. Over the 1999-2009 period, they are expected to total about $2.7 trillion. Excluding off-budget spending and revenues, small on-budget deficits continue through 2000 but give way thereafter to growing on-budget surpluses that are projected to total about $800 billion through 2009.[1]

Yet the emergence of projected surpluses, even sizable ones, does not mean that budgetary discipline should be abandoned. For at least four reasons, choices and trade-offs must be made, even in an era of surpluses.

1. Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2000* (April 1999), Table A-3, p. 68.

- If the economy weakens significantly, projected surpluses in the total budget could diminish or disappear, and the emergence of on-budget surpluses could be delayed. Major new budgetary commitments that were not offset would only hasten such a trend.

- Maintaining budgetary discipline would help ease the long-term budgetary pressures that will emerge with the aging of the baby-boom generation. In fact, annual deficits are projected to return as those pressures mount after 2010.[2]

- The discretionary spending limits and pay-as-you-go (PAYGO) requirement established by the Budget Enforcement Act of 1990 (BEA) are still in force.[3] In particular, the limits for 2000 allow for less spending than was appropriated for 1999. Trade-offs will be necessary to keep spending within those limits and still fund priority programs.

- Trade-offs will also be necessary to allow paying down the national debt. Reducing federal debt increases national savings and thereby promotes the economic growth that will be needed to help meet the long-term budgetary challenges facing the nation. The likely effects of a particular policy on the future growth and size of the economy is a key fiscal consideration for policymakers. In

2. For a discussion of the long-term outlook, see Congressional Budget Office, *Long-Term Budgetary Pressures and Policy Options* (May 1998).

3. The Balanced Budget Act of 1997 extended BEA procedures generally through 2002.

particular, major budgetary proposals—whether to reduce debt, cut taxes, increase spending, or address the long-term structural imbalances of Medicare or Social Security—should take those likely effects into account.

Although burgeoning surpluses may seemingly widen the range of policy options, they do not make them easy or obvious. For example, some policymakers would use surpluses (or a portion of them) to cover costs that are associated with certain proposals to reform Social Security or Medicare for the long term. Others favor proposals to overhaul the tax code. Those changes will be controversial and complex. Reaching a consensus on them is likely to be a difficult and protracted process. As lawmakers consider the various options, maintaining budgetary discipline will help preserve projected surpluses and lower the federal debt.

The prospect of continuing surpluses also does not dispense with the need to examine the effectiveness and efficiency of federal programs. Emphasizing the objectives underlying the Government Performance and Results Act of 1993 (GPRA) will assist policymakers in evaluating existing federal programs and in judging whether new programs should be substituted for outmoded or ineffective ones. Some policymakers favor converting the annual budget process to a biennial cycle in which an entire session of Congress would be devoted mainly to the oversight, evaluation, and reauthorization of federal programs.[4]

As policymakers consider these and other issues, they are likely to need a full range of budgetary options that produce savings. This volume lists spending and revenue options that would produce budgetary savings, either by cutting spending or increasing receipts.[5] The options generally are intended to help lawmakers maintain budgetary discipline. Some also can be used to satisfy other rationales for budgetary savings, such as limiting the overall size of the federal government, restructuring programs to achieve policy goals at lower cost, or improving the efficiency and effectiveness of federal programs to reach GPRA performance goals. Others can be used to eliminate narrow tax preferences or promote greater economic efficiency.

4. For data on program authorizations that expire in 1999, see Congressional Budget Office, *Unauthorized Appropriations and Expiring Authorizations* (January 8, 1999).

5. This volume is similar to the annual volumes CBO produced from 1980 through 1997 that listed options for reducing the deficit.

The Limits on Discretionary Spending in 2000 to 2002

For discretionary spending, which is controlled in annual appropriation acts, the Budget Enforcement Act establishes dollar limits for budget authority and outlays. In some years, separate limits have been set for broad categories of discretionary spending (such as defense, domestic, and international); in others, a single set of consolidated caps has covered all discretionary spending.[6] For fiscal year 2000, most discretionary spending is consolidated into an overall discretionary category. Separate caps are set for spending on highways, mass transit, and violent crime control. (Only outlay caps are established for the highway and mass transit categories.) After 2000, the violent crime category is combined with all other discretionary spending for enforcement purposes.

The limits on discretionary spending for 2000 cap total appropriations for the year below the level enacted for 1999, largely because of the record amount of emergency appropriations enacted last year. The amount of the shortfall depends on whether, or to what extent, those emergency appropriations are repeated as nonemergency appropriations for 2000 (see Table 1). For 2001 and 2002, total discretionary outlays are capped at or just below the limit for 2000.[7] Thus, relative to the levels enacted for 1999, spending cuts or offsets will be necessary to comply with the caps for 2000 and possibly for 2001 and 2002.

6. Separate discretionary categories are sometimes referred to as "firewalls" because they are created in part to preserve an overall level of spending for programs in that category. In general, spending cuts or offsets in one discretionary category may not be used to offset increases in another.

7. Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 2000-2009* (January 1999), Table A-1, p. 97.

Table 1.
Alternative Amounts of Discretionary Spending for 2000 Compared with Spending Caps
(In billions of dollars)

	Including Amounts for 1999 Emergencies	Excluding Amounts for 1999 Emergencies[a]
Budget Authority		
2000 Cap[b]	536	536
Amount to Preserve 1999 Real Resources		
Defense	290	281
Domestic and international[c]	287	279
Violent crime reduction	6	6
Total[d]	582	566
Amount over 2000 cap	46	29
Amount to Freeze 1999 Dollar Resources		
Defense	281	273
Domestic and international	275	267
Violent crime reduction	6	6
Total[d]	562	546
Amount over 2000 cap	25	10
Outlays		
2000 Cap[b]	573	573
Amount to Preserve 1999 Real Resources		
Defense	286	282
Domestic and international	284	281
Violent crime reduction	5	5
Highways	25	25
Mass Transit	5	5
Total	605	598
Amount over 2000 cap	32	25
Amount to Freeze 1999 Dollar Resources		
Defense	280	276
Domestic and international	279	277
Violent crime reduction	5	5
Highways	25	25
Mass Transit	5	5
Total	594	587
Amount over 2000 cap	22	15

SOURCE: Congressional Budget Office.
NOTE: Amounts to freeze 1999 dollar resources have no adjustment for inflation.

a. In 1999, $15.8 billion in discretionary appropriations was designated as emergency spending. The totals here exclude the estimated budget authority and outlays that result from assuming that those appropriations are repeated in 2000. About $6 billion of 1999 emergency appropriations funded certain mandatory programs and therefore are not reflected in this table.
b. The caps reflect discretionary spending limits as specified by the Office of Management and Budget in the sequestration preview report included in the President's budget, adjusted for CBO's estimate of contingent emergency releases that the President has not yet designated.
c. In 1999, an appropriation of $17.9 billion was provided for the International Monetary Fund to meet a periodic commitment for which funding was last provided in 1993. Such appropriations result in no outlays. The domestic and international totals here exclude the estimated budget authority that results from assuming that the appropriation is repeated in 2000.
d. This level does not include mass transit budget authority, which is not subject to a cap. Mass transit budget authority totals $1.1 billion in 1999.

During the mid-1990s, lawmakers constrained overall discretionary spending levels by making significant cuts in defense outlays, which now account for roughly half of total discretionary spending. The end of the Cold War made sizable defense cuts possible. Since 1990, defense discretionary outlays have fallen about 25 percent, while nondefense discretionary outlays have grown about 20 percent (in constant 1992 dollars).[8] Some lawmakers are concerned that further defense cuts would be ill-advised and believe that defense levels should be increased. Some also advocate reestablishing separate caps for defense and nondefense discretionary spending, a move that would prevent trade-offs between the two categories.[9]

Reaching a consensus on discretionary spending levels that do not exceed the caps will be difficult. The lure of growing surpluses may exacerbate the problem. Consequently, some lawmakers fear that conditions may be ripe for efforts to evade rather than comply with the discretionary caps for 2000 and beyond. As proof, they point to the record amount of emergency appropriations enacted for 1999.

The BEA permits the President and the Congress to designate new spending or revenues as emergency requirements, which are effectively exempt from the discretionary spending limits and PAYGO. Typically, the emergency designation is used to provide appropriations for unforeseen or unpredictable events, such as natural disasters or international emergencies. Under the BEA, emergency appropriations not related to the Persian Gulf War have ranged from about $1.5 billion (1991) to $22 billion (1999), averaging just under $9 billion annually. In some years, those amounts have been partially or entirely offset with rescissions of other discretionary appropriations. However, most of the record amount of emergency spending enacted for 1999, which was provided for a variety of purposes, was not offset, thus increasing concern that the emergency safety valve has become a loophole for sustained higher spending.[10]

CBO estimates that the President's budgetary proposals for 2000 would cause total discretionary outlays to exceed the outlay limit for that year by about $30 billion. The President proposes to partially offset that excess amount with certain new taxes and cuts in mandatory spending programs—proposals that the current BEA rules would count under the PAYGO requirement, not the discretionary spending limits.[11] Those proposals would require changes in BEA procedures, which the President also proposes. Some analysts contend, however, that such changes would weaken budgetary discipline since total discretionary spending would remain well above the capped levels.

Other Rationales for Budgetary Savings

Although all of the options included in this volume would produce budgetary savings that could be used to maintain budgetary discipline, some could also be used to promote other policy goals.

Some options, for example, could be used to reduce the size of government, limit its rate of growth, or scale back activities for which a federal role is questioned. Certain options, such as the one to reduce funding for the arts and humanities (option 500-12), would produce savings by eliminating a program or programs that some policymakers may consider to be inappropriate federal activities. Others, such as the one to eliminate funding for new empowerment zones and enterprise communities (option 450-06), would cancel programs or spending that may duplicate other federal or state programs. Several options would can-

8. *Budget of the United States Government, Fiscal Year 2000: Historical Tables*, p. 118.

9. Separate caps for defense spending were in place in 1991, 1992, 1993, 1998, and 1999.

10. For a discussion of trends and issues relating to emergency spending, see Congressional Budget Office, *Emergency Spending Under the Budget Enforcement Act*, CBO Memorandum (December 1998).

11. Congressional Budget Office, *Analysis of the President's Budgetary Proposals for Fiscal Year 2000*, p. 5.

cel or cut back spending that many people believe is more appropriately undertaken by the private sector —for example, the option to eliminate the Department of Energy's applied research program for fossil fuels (option 270-01). The option to eliminate the Essential Air Service program (option 400-03) would end an activity that benefits certain localities but may not serve the wider public.

Other options would enable lawmakers to eliminate programs that may have outlived their usefulness, may have achieved the purposes for which they were created, or might be better performed outside the federal government. For example, the option to eliminate certain subsidies provided by the Rural Utilities Service (option 270-05) would end a program that many people assert has accomplished its original objectives. One goal of the option to sell federal assets that support the Southeastern Power Administration (option 270-07) would be to end a federal activity that the private sector may be able to perform more efficiently. Some people support the option to eliminate antidrug advertising (option 800-05) because they argue that there is no clear evidence that such advertising works.

Lawmakers may also want to consider options that would restructure programs to achieve program goals at lower cost. A number of national defense options may offer such opportunities. Option 050-24, for example, would consolidate military exchange systems and introduce incentives for more efficient operations. The option to restrict eligibility for student loans by using home equity to determine financial need (option 500-07-C) would improve the targeting of federal assistance under the student loan program. Another option, to simplify and limit Medicare's cost-sharing requirements (570-13-A), is meant to encourage beneficiaries and providers to use medical services more prudently. A number of options would establish cost-based user fees for businesslike services that the government now provides without charge.

Certain revenue options would produce savings by eliminating preferential treatment in the tax code for particular activities or forms of income and by providing more evenhanded treatment of taxpayers generally. For example, options REV-09 through REV-12 would restrict the tax-favored treatment of nonretirement fringe benefits.

Many of the options are relevant to the requirements of the Government Performance and Results Act of 1993 in that they could be used to improve the efficiency and effectiveness of federal programs. That act requires federal agencies to prepare annual performance plans that establish measurable goals for program performance and that match expected goals with a certain level of funding. Performance measures are now included with agency budget requests in the President's annual budget submission. They are intended to help policymakers hold departments and agencies accountable for programs that do not effectively and efficiently accomplish their objectives, as indicated by their performance measures. If programs fall short of those measures, the law intends that policymakers be confronted with certain critical decisions, including whether those programs should be restructured or have their funding reduced or eliminated.

Exclusions and Limitations

The options for budgetary savings in this volume stem from various sources, including legislative proposals, the President's budget, past CBO deficit reduction volumes, Congressional and CBO staff, other government entities, and private groups. Although the options are intended to reflect a broad range of possibilities, they are neither ranked nor comprehensive. The inclusion or exclusion of a specific option does not represent an endorsement or rejection of that option by CBO (see Box 1). As a nonpartisan Congressional staff agency, CBO does not make policy recommendations.

The options exclude policy changes that are not counted under the Budget Enforcement Act. Thus, options that would affect off-budget programs (Social Security and the Postal Service) or that fully fund existing deposit insurance commitments are not included. Also excluded are options affecting any program or requirement for which the discretionary spending limits are automatically adjusted. Those programs and requirements include spending designated as an emergency requirement (also excluded from PAYGO), appropriations for continuing disability reviews of certain benefit payments, the International Monetary Fund, international arrearages, and initiatives to com-

Box 1.
Changes in Options from Previous Volumes

Not all of the options included in the Congressional Budget Office's last published compilation (1997) of spending and revenue options appear in the current volume. Some of the options, or very similar ones, have been enacted into law. An example is the option to extend and broaden the Federal Communications Commission's authority to auction licenses to use the radio spectrum. Other options—for example, a proposal affecting assistance to people who rent housing in rural areas—have been dropped because programs were modified to improve their effectiveness.

Since the 1997 volume was issued, projected surpluses have replaced projected deficits. A number of revenue options that had the sole or primary purpose of raising revenues to close the budget deficit have therefore been dropped. Increasing marginal tax rates on individuals and corporations and imposing a value-added tax are two examples. Other revenue options in the previous volume—for example, options to limit pension contributions or to tax capital gains from home sales—have been dropped because recently enacted measures indicate movement toward increasing rather than decreasing tax benefits in specific areas.

ply with the earned income tax credit. Further, asset sales that CBO estimates would result in net costs to the federal government are excluded. For example, selling the assets of the Tennessee Valley Authority (TVA) may result in net federal costs because a private operator may not be able to charge prices for electricity that are sufficiently high to pay the TVA's outstanding debt to the government.[12]

The volume focuses on options that would produce near-term budgetary savings; it excludes broad policy options or integrated approaches for budgetary savings—for example, comprehensive proposals to reform major programs, such as Social Security or Medicare, or those proposals to revise the tax code. Such options generally make more fundamental changes that take longer to carry out and are directed principally at the longer-term budgetary or economic horizon.

The options in this volume facilitate the case-by-case review of individual programs. The volume therefore excludes certain types of governmentwide options that would produce savings in many programs or agencies. Such options would, for example, freeze spending across the board, eliminate an entire department or major agency, or make an across-the-board cut in federal salaries. Savings for such options cannot always be reliably estimated because they may affect numerous programs and may simply result in a shift in spending among programs or accounts. Moreover, such options cut effective and ineffective programs alike.

Some of the options affecting states, localities, or the private sector may involve federal mandates. The Unfunded Mandates Reform Act of 1995 establishes procedures intended to control such mandates. It also requires CBO to estimate the costs to states and localities of any mandates imposed by new legislation that the Congress is considering. Individual options in this volume do not include estimates of any potential mandates. However, they may discuss that issue where appropriate.

The calculations accompanying the individual options do not include savings in federal interest costs. Interest savings typically are estimated as part of a comprehensive budget plan, such as the Congressional budget resolution, but such adjustments usually are not made for individual options of the type discussed in this volume.

12. The Balanced Budget Act of 1997 (BBA) changed the treatment of asset sales under the BEA. Previously, asset sales were not counted for any purpose under the BEA. Therefore, the proceeds from the sale of a government asset could not be counted under the discretionary spending limits or the PAYGO requirement and could not be used to offset spending increases or tax cuts under those disciplines. The BBA modified that rule to prohibit counting only asset sales that would result in a net cost to the federal government. Guidelines for calculating the net cost of an asset sale are included in the BEA scorekeeping guidelines contained in the BBA conference report (see U.S. House of Representatives, *Balanced Budget Act of 1997*, conference report to accompany H.R. 2015, Report 105-217 (July 30, 1997), p. 1012). The scorekeeping guidelines are reprinted in the appendix. For a discussion of issues raised by the sale of power assets, such as the TVA, see Congressional Budget Office, *Should the Federal Government Sell Electricity*, CBO Study (November 1997).

Finally, subsequent CBO cost estimates, which generally accompany any bill reported by a Congressional committee, may not match the savings estimates shown in this report. The policy proposals on which the cost estimates are based may not precisely match the specifications used in developing the options. Further, the budget baseline estimates or levels against which the proposals ultimately are measured may have been updated and thus would differ from those used here.

Using This Volume

Part One of this volume lists options to reduce spending, and Part Two lists options to increase revenues. Spending options are categorized according to the functional categories of the budget—national defense (050), international affairs (150), general science, space, and technology (250), and so on. Each spending option is further identified as affecting either mandatory or discretionary spending. For each function, an introductory page provides summary information and historical data on overall mandatory and discretionary spending trends within that function.

The options are numbered individually and include, where appropriate, references to related options in the volume and to relevant CBO publications. Spending options are numbered beginning with the number for the functional category within which they are grouped. For example, defense spending options are numbered 050-01, 050-02, and so on. Closely related options are grouped together under a single number, with individual options identified by a letter suffix. (For example, 050-01-A and 050-01-B both cut strategic nuclear force levels.)

For each option, the volume provides general background, discusses the pros and cons of the proposal, and estimates the annual budgetary savings (that is, the cut in spending or the increase in revenues) for the 2000-2009 period. Cumulative savings are summed for the first five years of that period (2000-2004) and for all 10 years. The projected savings for mandatory spending and revenue options are computed from baseline levels estimated to occur under current law.[13] Savings for discretionary spending options generally are calculated from the level appropriated for 1999. Savings for a few discretionary spending options, principally those affecting certain housing subsidies, are calculated from adjusted baseline levels explained in the background discussion for those options. New or increased fees may be classified as offsets to spending (offsetting receipts or collections) or as new revenues (governmental receipts).[14]

Scorekeeping Guidelines

The BEA includes scorekeeping guidelines to ensure that the budgetary effects of legislation are measured consistently and in accord with standard conventions (see the appendix). Among other things, those guidelines identify discretionary and mandatory accounts, specify how to account for legislation that crosses between the discretionary spending and PAYGO enforcement categories, provide for the scoring of asset sales and lease purchases, and set forth rules for various other budgetary transactions.

The guidelines, however, are subject to interpretation, and CBO and the Office of Management and Budget (OMB) sometimes view them differently. Those differing interpretations may affect how certain options are counted under BEA procedures. OMB estimates are final for the purpose of BEA enforcement. CBO estimates are advisory under the BEA but generally are used in the Congressional budget process.

13. For cost estimates of revenue legislation, CBO is required by law to use estimates provided by the Joint Committee on Taxation. JCT estimated most of the revenue options included in this volume. CBO prepared the estimates for the option to expand Medicare coverage to certain state and local government employees (REV-18) and the option involving taxable Social Security and Medicare wages for the self-employed (REV-19).

14. The term "user fee" is not a formal budget category. It is an informal term that generally refers to collections from individuals or entities that benefit from or are regulated by some federal program, and the collections are used solely to support that program. In general, if the fee supports a business-type activity, it is classified as an offset to spending. If it is based on the government's sovereign power to tax, it is classified as a revenue. User fees classified as spending offsets may be further classified as either mandatory or discretionary, depending generally on the type of spending legislation in which the fee is included.

The Interactive Budgetary Discipline Volume

An interactive version of this report is available on CBO's Web site (www.cbo.gov) in HTML. That version allows users to search the options in four ways, singly or in combination:

- By type of option—spending (by budget function) or revenue,
- By spending category (discretionary or mandatory),
- By agency (the federal agency whose programs would be affected by the option), and
- By word or phrase.

For example, a user could search for all options related to natural resources and the environment (budget function 300) that affect discretionary spending; all options that would produce savings in mandatory spending within the Department of Health and Human Services; all options that deal with submarines; or all options that eliminate something (a program, some kind of assistance, or some other key factor).